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TAGS: EFIN ECON ELAB ALOW AR
SUBJECT: Argentina Economic and Financial Weekly for the week ending April 13, 2006

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Weekly Highlights
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- Wage increases may jeopardize price restraint agreements with supermarkets.
- Guillermo Moreno to negotiate and control price restraint agreements.
- Gas Ban tariff increases for residential users will not go into effect in 2006.
- FDI in Argentina increased 9 percent y-o-y to USD 4.6 billion.
- The peso appreciated 0.3 percent against the USD this week, closing at 3.09 ARP/USD.
- Private sector external debt fell 5 percent q-o-q to USD 49.5 billion in Q3 05.
- Commentary of the Week: "The Worries of Autumn".
(Note: Thursday, April 13 and Friday, April 14 are holidays in Argentina. End Note.)

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Wage increases may jeopardize price restraint agreements with supermarkets.
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¶1. Supermarket representatives warned this week that their agreements to keep prices unchanged on 200 basic goods may not be possible if their costs increase as a result of the wage negotiations with the commercial employees union. The union is asking for a 28 percent wage increase but reportedly they are willing to accept a 10-15 percent increase, following last week's precedent set by the transport union, which accepted a 19 percent wage increase. Wages account for 30 percent of supermarket costs. The Vice-Minister of Labor said that wage negotiations will not generate wage increases that increase inflation. On April 13, El Cronista reported that the commercial employees union agreed to a 19 percent wage increase (to be implemented in three installments) which will be formalized next week.

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Moreno to lead the Secretariat of Coordination to negotiate and control price restraint agreements.
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¶2. On April 13, local media reported that President Kirchner decided to appoint Guillermo Moreno, currently Secretary of Communications of the Ministry of Planning, as Secretary of Technical Coordination of the Ministry of Economy. Moreno will replace Lisandro Salas, who will take Moreno's place as Secretary of Communications. The move reportedly reflects President Kirchner's displeasure with the lack of success of his efforts to force the private sector to hold down consumer prices. According to sources, Kirchner is convinced that Salas was not aggressive enough in security private sector cooperation. Moreno, a hardliner, is expected to put more pressure in enforcing the existing price agreement. The GOA is concerned that wage demands may jeopardize price restraint agreements because of the cost increases they may generate. Many analysts see Moreno's appointment as another step in Planning Minister De Vido's intervention in the Ministry of Economy, although outgoing Secretary Salas was also a De Vido loyalist. The latest BCRA consensus survey forecasts a 0.9 percent m-o-m inflation increase for April and a 12 percent y-o-y rise for 2006.

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Economy Minister Miceli leads Argentine delegation to the IMF/WB meetings next week.
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¶3. Minister of Economy Felisa Miceli will travel to Washington DC on April 20 to participate in the IMF and World Bank Spring Annual Meetings. Reportedly,

she will meet with IMF Director Rodrigo Rato, U.S. Treasury Secretary John Snow and World Bank President Paul Wolfowitz. During the meetings, Miceli will reportedly ask that IFIs redirect loans to the productive sector and suggest eliminating conditionality in loans granted by IFIs. The Argentine delegation will also include BCRA President Martin Redrado, Secretary of Finance Alfredo Mac Laughlin and Secretary of Economic Policy Oscar Tangelson.

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Gas Ban tariff increases for residential users will not go into effect in 2006.
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¶4. On April 10, the GOA issued a decree authorizing a 15 percent average tariff increase for Gas Ban customers (including commercial, industrial and residential consumers). Gas Ban is one of the main providers of natural gas in the city of Buenos Aires. The decree stated that the increase would be retroactive to November 1 for commercial and industrial users, and to January 1 for residential users. However, the same day that the decree was published in the Official Gazette, a spokesman for the Ministry of Planning said that tariff increases will not go into effect until 2007, despite the published decree. On April 11, Minister of Planning De Vido said that there is no time frame to implement the gas tariff increase and that the GOA will seek to ensure that any tariff increase does not increase inflation.

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Bolivia limits gas exports to Argentina to supply Brazil.
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¶5. On April 7, after a pipeline break caused by bad weather, Bolivia started limiting its gas exports to Argentina in order to guarantee its exports to Brazil.

The President of YPFB company said that the company gave priority to supplying Brazil because it has a 20-year agreement with Brazil, but only a temporary agreement with Argentina to supply 4.5-5 million cubic meters of gas per day. The reduced gas exports to Argentina did not cause shortages because temperatures were low and industries are not at their peak production. However, Argentine gas companies responded by cutting exports to northern Chile to maintain supply in Argentina.

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GOA studying new measures to avoid electricity shortages in 2007-2008.
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¶6. At a seminar on April 11, Secretary of Energy Cameron said that the GOA is planning new and innovative measures to avoid the threat of a power supply shortage in 2007 and 2008. The GOA will encourage large electricity consumers to have their own capacity generation and avoid buying in the wholesale electricity market during seasonal peaks in consumption. In return, the GOA would subsidize or reimburse those companies for the additional cost of producing their own electricity.

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Ciganotto appointed President of Banco Nacion to replace Lospinato.
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¶7. On April 7, the GOA issued a decree appointing Gabriela Ciganotto as President of Banco Nacion (the largest bank in Argentina, wholly owned by the GOA), replacing Ricardo Lospinato. Lospinato has been President of Banco Nacion only since November 2005, when Felisa Miceli took office as Minister of Economy.

Reportedly, Lospinato resigned due to differences with Miceli over the management of the bank. Ciganotto is an accountant who has worked at Banco Nacion for several years and has close contact with First Lady Cristina Fernandez de Kirchner.

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BCRA rolls over its maturities at lower interest rates; Investors concentrated their bids in Nobacs.
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¶8. The BCRA received only ARP 213 million in bids at its April 11 Lebac auction, compared to the ARP 1.4 billion in Lebacs that came due during the week. However, the BCRA received ARP 1.7 billion in bids in its Nobac auction. As in previous auctions, the BCRA therefore was able to roll over its maturities by accepting bids for ARP 1.7 billion (ARP 110 million in Lebacs and ARP 1.6 million in Nobacs). The yield on the 35-day Lebac decreased from 6.67 percent to 6.61 percent, the yield on the 56-day Lebac remained decreased from 6.85 percent to 6.80 percent, while the yield on the 84-day Lebac decreased slightly from 7.35 percent to 7.29 percent. Lebacs for other maturities were withdrawn due to lack of interest. The spread on the nine-month Nobac decreased twenty basis points from 2.75 percent to 2.55 percent, while the spread on the two-year Nobac dropped twenty-four basis points from 4.67 percent to 4.43 percent. Investors continue concentrating their bids in Nobacs (88 percent of total bids), since these instruments have a variable rate and provide a higher yield, which has enabled the BCRA to continue decreasing their spread.

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GOA financial needs easily achievable for 2006.
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¶9. According to the Embassy's analysis, the GOA will

have little difficulty meeting its financing needs in ¶2006. Using conservative assumptions, the GOA will face payments of USD 11 billion and have resources of USD 12.3 billion and a financial surplus of USD 1.3 billion. This assumes at least USD 2 billion in new debt issuance, which appears easily achievable given that the GOA already has issued USD 500 million and is preparing to issue an additional USD 500 million in the near future. The USD 1.3 billion surplus also assumes that the IADB refinances USD 1.4 billion and that the BCRA provides another USD 600 million in financing. Resources could reach USD 15.3 billion under a more optimistic scenario, in which Venezuela buys another USD 1.5 billion in GOA debt and the market absorbs another USD 1.5 billion in new debt. This seems possible if the current strong appetite for emerging market debt continues and given the recent S&P upgrade in Argentine debt.

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Private sector external debt fell 5 percent q-o-q to USD 49.5 billion in Q3 05.
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¶10. According to a BCRA report, the private sector's external debt decreased 5 percent q-o-q in the third quarter of 2005. Private sector debt totaled USD 49.5 billion in September 2005 (27 percent of GDP), of which 90 percent (USD 44.4 billion) was in the non-financial private sector and 10 percent (USD 5.1 billion) in the private financial sector. The private sector has reduced its external debt by USD 28.4 billion since December 2001.

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The peso appreciated 0.3 percent against the USD this week, closing at 3.09 ARP/USD.
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¶11. The peso appreciated 0.3 percent the USD this

week, closing at 3.09 ARP/USD. This week's appreciation is mainly attributed to increased sales by exporters due to the harvest season as well as increased dollar sales by companies in need of pesos to pay taxes and the relatively high level of the call rate (11 percent). The BCRA did not prevent the peso's appreciation despite its stronger intervention of USD 82 million on April 12 (its largest intervention since March 1). It accumulated USD 178 million in reserves in the three working days of this week. The BCRA has purchased USD 2.6 billion since the beginning of the year and its reserves reached USD 21.8 billion on April 10. The peso exchange rate has depreciated 1.3 percent since the beginning of the calendar year

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75 percent of companies surveyed by CEP plan to increase production in 2006.
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¶12. A survey by the Centro de Estudios para la Produccion (CEP) - a research center under the Secretary of Industry - showed that 75 percent of the

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companies consulted plan to increase their production in 2006, and that 50 percent of those companies plan to increase production by more than 5 percent. The sectors planning the largest increases in production in terms of volume are food and beverages, petrochemicals, rubber and plastics and construction inputs. Also, 80 percent of the companies surveyed expect sales increases and 70 percent of the companies believe that they will increase their exports compared to 2005. The CEP prepares its report by surveying one-

hundred large industrial companies.

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FDI in Argentina increased 9 percent y-o-y to USD 4.6 billion.
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¶13. The Economic Commission for Latin America and the Caribbean (ECLAC) reported that foreign direct investment in Argentina increased 9 percent y-o-y to USD 4.6 billion, reaching its highest level since the

2001 financial crisis. According to the report, increased exports and economic growth improved investment perspectives for the country. Strong domestic demand also encouraged some manufacturing companies to increase their production capacity.

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Provincial growth rates averaged 10 percent in 2005.
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¶14. According to a report by Economa & Regiones, provinces grew at an average rate of 10 percent in
¶2005. The provinces showing the highest growth rates were Chaco, La Pampa and Entre Rios, all provinces where agriculture, forestry and cattle are major industries. The provinces with the lowest growth rates were Santa Cruz, Chubut and Neuquen, where oil and gas are the major industry. The oil sector's slow growth is due to high export taxes and price caps adverse impact on investment. The report concludes that in the economic model adopted after the 2002 financial collapse, provinces with agriculture and primary goods production were the winners along with the city of Buenos Aires and the Province of Buenos Aires, which benefited from import substitution. The report forecasts that provincial differences will deepen under the current economic model.

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Commentary of the Week: "The Worries of Autumn" by Andres Chambouleyron. (Note: Translated and published with permission of the author from an article published in La Nacion on April 9. End Note)
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¶15. With 2006 growth projections about 6 percent and with autumn about to arrive, worries are returning about the capacity of producers and transporters of natural gas to supply the growing demand of gas in time and on location.

¶16. Aggregate natural gas consumption has grown at an average rate of 4.3 percent per year since the beginning of the economic recovery in 2002, compared to an average of 6.5 percent per year in the period 1995-2001. Production, on the other hand, has been growing at a 2.9 percent rate during 2002-2005, compared to an 8.2 percent rate during 1995-2001. How have reserves developed? ... reserves have fallen from 20 years of production in 1994 to 9.3 years in
¶2005. This is the result of two factors: first, that today we produce double the amount of gas that we produced in 1994 (51 billion cubic meters versus 26 billion cubic meters) and second, that the gross rate of increase in reserves (discoveries of more gas through greater exploration) has fallen at a 5.5 percent annual rate from 1995 to 2001, and at a 10.2 percent annual rate between 2002 and 2004.

A Dangerous Path

¶17. Assuming a future path of gas prices and projections of economic growth for the period 2006-

2008, aggregate consumption of gas could grow at an annual rate of 3.2 percent. If, assuming further, that from 2006 onwards, gas production grows at the same rate as it did during 2002-2005 (2.9 percent average annual growth) and the gross rate of growth of reserves is similar to that during the 2002-2004 period (-10.2 percent average per year), the stock of reserves would fall from 9.3 years of production today to 5.2 years of production in 2008. ....

¶18. What are the solutions that will prevent this? One is to import gas from Bolivia or Venezuela at prices higher than local prices. Nevertheless, this strategy won't increase the stock of reserves, and will only reduce the rate of loss, given that the increase in local demand is being met today with imports and not with reserves and increased local production. While the major producers of gas in Argentina are announcing more investment in the sector, it is aimed mainly at greater production to supply the local market and meet growing internal demand, with only marginal amounts being invested in exploration.

¶19. The only way to reverse this sustained drawing down of reserves is through greater private investment in exploration. The latest estimates from the Secretary of Energy put probable reserves (those that

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are not yet proven but likely to be so) at 262 billion cubic meters as of December 2004. This is equal to 5 years of production, which indicates that with adequate policies to encourage private investment (freedom to set prices and sell resources, contractual and regulatory certainty) the stock of proven reserves could be maintained over time at the 9-to-10 year level that now exists, and reduce our dependence on imported gas from countries that are politically and economically highly unstable. (Note: We reproduce selected articles by local experts for the benefit of our readers. The opinions expressed are those of the authors, not of the Embassy. End Note.)

GUTIERREZ